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ABSTRACT

This packet of four brochures focuses on money management for four stages of life, from early adulthood to preretirement. The first brochure, for young adults, discusses early financial tasks, such as selecting a financial institution, and checking and savings accounts, credit establishments, and employee benefits. The second brochure, for young married couples, covers sharing financial tasks, spending and saving, using credit responsibly, meeting changing needs, and getting professional financial advice. The third brochure examines the middle family years, including preparing for emergencies through buying insurance, having credit to use in an emergency, coping with crises by scaling back and stretching dollars, and the "sandwich generation" and financial support of elderly parents. The fourth brochure makes suggestions for planning for financial independence in later life. Topics include taking stock of one's financial situation, looking ahead at sources and amounts of retirement income, money management, legal matters, relocation or staying put, handling emergencies, and planning to stay independent. All four brochures stress the need for financial planning and suggest resources for further information. (KC)

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MANAGING MONEY THROUGHOUT LIFE

A FOUR-PART SERIES

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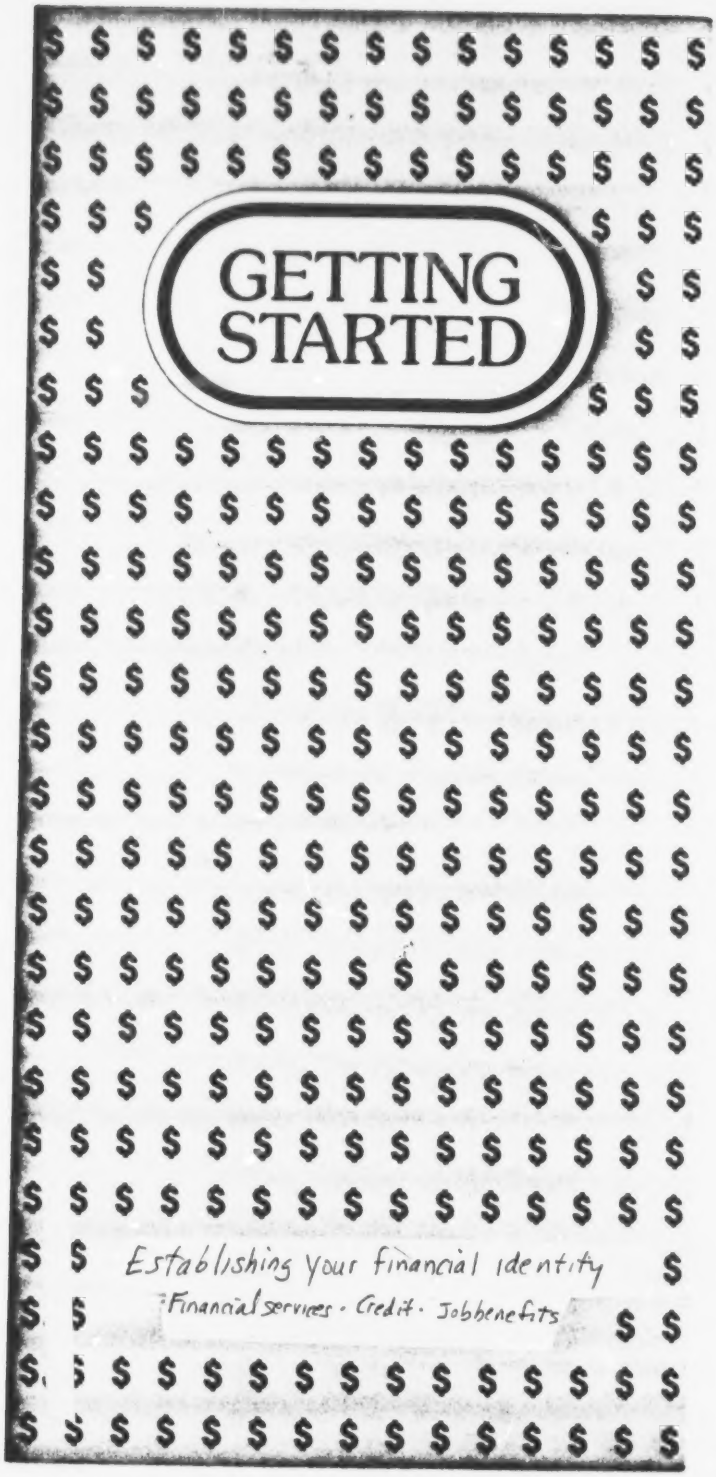
GETTING STARTED
Establishing your financial identity
Financial services · Credit · Jobbenefits

FREE TOASTER OR FREE CHECKING?

WHERE SHALL I DEPOSIT MY MONEY?

The first step in establishing a financial identity is to open an account at a financial institution. Picking the best place to put your money, like most other financial decisions, is something you should do every time your circumstances change. The best combination of checking and savings accounts will depend on your income, on interest rates, and on other economic conditions.

Selecting a financial institution

There are many factors to consider when choosing a financial services provider. These are some questions to ask:

- *Customer service:* What is the institution's reputation for providing prompt personal service? For answering questions? For handling problems? Is it conveniently located? Can I make deposits and withdrawals after hours through automatic teller machines (ATMs) or by mail?

- *Terms and conditions:* Are canceled checks returned with the monthly statements? Can I arrange for automatic deposit of my paycheck? For immediate credit on deposits? For a loan or line of credit? What are the fees for these services?

Deciding on a checking account

There are basically two types of checking accounts – those that earn interest and those that do not. Your first checking account may be a traditional *demand account* with unlimited checking but no interest. But, depositors with enough cash to meet minimum balance requirements may want to consider an interest-bearing *NOW* or *Super NOW* account.

Before opening a checking account of any kind, these are some questions to ask:

- Must I keep a minimum monthly balance to get *free* checking? Or, how many checks are free, and what is the fee for additional checks? Given my check-writing pattern, is it more economical to pay a monthly service charge or a per-check fee? What is the charge for a "bounced" check?

- For interest-bearing accounts, what is the annual percentage yield? How is interest computed: on the average daily balance; on the minimum balance; or by some other method?

Deciding on a savings account

Many financial institutions, including banks, savings and loans, credit unions, brokerages, other financial services companies, and the federal government, offer a growing variety of savings instruments. Terms, conditions, and rates of return vary.

A traditional *passbook savings account* can be opened with a small deposit and may be the only alternative available to people just starting out. Depending on economic conditions, other savings instruments (such as *Certificates of Deposit*, insured *Money Market Deposit Accounts* at banks, uninsured *Money Market Mutual Funds* managed by investment companies, or *U.S. Savings Bonds*) may offer higher interest, but each carries conditions and risks. Shop around, because minimum deposit requirements and yields vary greatly.

Before choosing a savings instrument, these are some questions to ask:

- What minimum balance, if any, is required to avoid fees or penalties? Is the annual yield at a fixed rate, or does it fluctuate? How often is interest compounded? On what balance?

- Can I withdraw my funds or transfer them to other accounts without penalties or service charges? By check? By phone? By automatic teller? How often? In what amounts?

- Is my deposit insured by a federal government agency, such as the Federal Deposit Insurance Company (FDIC) or the Federal Savings and Loan Insurance Company (FSLIC), or by another insurer?

ESTABLISHING CREDIT

HOW CAN I SHOW THAT I AM CREDITWORTHY?

Young people must establish a history of creditworthiness before a financial institution will lend them money or extend credit. Credit reporting agencies keep credit histories and sell them to potential creditors. The federal

Fair Credit Reporting Act allows you to learn what is in your credit file and to question any of its information.

These are some ways to begin to build a credit history:

- Find a job and establish a steady work record.
- Pay bills promptly.
- Open a savings and a checking account, and don't "bounce" checks.
- Apply for credit from one or two institutions. For example:
  – Obtain a small loan from a bank or your credit union, asking a friend or relative to co-sign, if necessary.
  – Apply for a credit or charge card where it is relatively easy to qualify, such as a local department store or bank.
  – Ask your bank for a line of credit and periodically request that it be increased.
  – Obtain a credit or charge card on a relative's account and have your name entered in the credit bureau's records.
- Check credit bureau records periodically to be sure your credit accounts are reported accurately and completely. (There is usually a small fee.) Contact your credit bureau if you are denied credit because of an error, or if you have any reason to think there are inaccuracies in your record. Ask that any errors be corrected.

How will lenders view my credit history?

Potential lenders, such as banks, credit and charge card companies, and stores, evaluate your income, debts, savings and other assets, and your promptness in paying bills. The federal Equal Credit Opportunity Act prohibits lenders from denying credit on the basis of sex, race, color, religion, national origin, age, marital status; because all or part of the applicant's income comes from public assistance, or because the applicant has exercised a right under the Consumer Credit Protection Act. If credit is denied, this law gives the applicant the right to know why.

- Some creditors use scoring systems that compare an applicant's financial situation and other factors to those of their current credit users to predict who will be a good credit risk.
- Sometimes, the item being financed helps determine whether you qualify for a loan, because the product (a car or an appliance, for example) is "security" that will be returned to the creditor if you default on the loan.
- You should be careful not to apply for credit from too many places at once. A creditor may turn you down if the total amount of credit you have is more than that creditor allows for someone in your circumstances. This denial may in turn make other creditors wary.

Can I afford credit?

The total cost of credit is the interest you pay plus any fees. The cost of credit varies widely so it is important to comparison shop.

Many consumers use credit as a substitute for cash and pay the balance in full at the end of each month. Others use credit to expand their purchasing power and pay a minimum balance plus an interest charge each month. *Before* deciding to buy on credit, you may want to consider how this added interest will affect your monthly budget. One rule of thumb says you should not have monthly credit payments exceeding 15% of your income after taxes and housing expenses.

When you comparison shop to find credit at the least cost, these are some questions to ask:

- What is the annual percentage rate (APR)? (Creditors must disclose this figure under the federal Truth-in-Lending law.) Is the APR fixed, or will it change with market conditions?
- Is there a grace period before interest is charged?
- Is credit life, disability, or accident insurance required by the lender? Are the terms the best available? Am I already adequately covered by other insurance?
- Have I read the credit or loan agreement, and do I understand the terms?

To find the best basis for choosing a credit or charge card, ask yourself how you plan to use the card.

- If I plan to pay the bill in full each month, is there an annual fee, and are there other charges?
- If I plan to use the card to pay for purchases over time, what is the APR? Is interest calculated on the *average daily balance*, the *previous balance* before this billing period, or an *adjusted balance* that takes into account payments I have made? (One method may be more expensive than another.) Is there a preset credit limit, and, if so, is it high enough to meet my purchasing needs? Is the card widely accepted? Can I get less costly credit from an overdraft checking account or a personal loan?
- Does the card offer any "extras" or special benefits?

I'VE GOT THE JOB

NOW, WHAT ABOUT EMPLOYEE BENEFITS?

Most medium-size to large firms offer a variety of employee benefits:

- health and life insurance
- retirement benefits
- protection in case of income loss due to illness or long term disability
- paid holidays, vacations, and time off for jury duty and funeral leave

For established workers, benefits such as pension plans, child care, time off to care for elderly parents, and comprehensive health coverage can take on great importance. For younger workers, the need for such benefits may seem far off. Nevertheless, before you take a new job, you may wish to review the employee benefits just as you would evaluate your auto insurance each time you buy a new car. These are some questions to ask:

What kind of insurance do I need at present? Do the employer insurance benefits meet these needs, or do I need to buy additional coverage?

Of the many varieties of insurance coverage, young people most often consider health, disability, and life.

Health and Disability Insurance

Most employers provide health and disability insurance. Whether coverage is adequate depends on individual circumstances such as age, health history, and marital status. A single person, for example, might evaluate how well the benefits package meets his or her individual needs. In contrast, a two-career couple might consider whether to be insured separately through their respective jobs or to be covered as a family under the more comprehensive of the two benefit packages. These are some questions to ask:

- Do the workplace *health benefits* provide enough coverage for hospitalization, including surgery? For doctor visits and diagnostic tests? For major medical expenses that exceed basic coverage? For dental care? For prescription medicines? If not, is it worth buying supplemental insurance to fill in the gaps?
- Can employees choose between traditional coverage or preventive care through Health Maintenance Organizations (HMOs) or Preferred Provider Organizations (PPOs)?
- Do the workplace *disability benefits* provide income if I am unable to work? For how long? Do they provide job retraining? Are premiums waived during a period of disability? Are there waiting periods, restrictive definitions of "work," or other conditions? How much of my current living expenses will the disability benefits cover? Do I have other sources of income to cover the remainder, or should I consider additional disability insurance from another source?

Life Insurance

Life insurance provides funds to beneficiaries that can be used to pay burial expenses and other debts. Although some employers offer life insurance, coverage may end if you change jobs, so it is worth considering buying your own life insurance policy. There are several advantages to buying a policy early in life – lower premiums, easier acceptance for coverage, and the possibility of supplementing or transferring insurance without providing new medical evidence of insurability.

It is wise to shop around carefully for life insurance, because policies vary widely in cost and in the features they offer. The best policy or combination of policies changes with your circumstances during your lifetime. When reviewing your coverage to meet your changing insurance needs, these are some questions to ask:

- Do I want basic coverage at the lowest cost?
- Do I want to use life insurance to accumulate cash value?

Relatively inexpensive *term insurance* for a specified time could be useful if a large amount of coverage is needed, or when income is limited. *Whole life* policies are one way to accumulate cash value, which can be applied toward more insurance, borrowed against, or cashed in. (Be sure to compare the return with the potential yield of savings instruments or other investments.) *Annuity or endowment* policies pay a lump sum or monthly income after a certain age, or to beneficiaries if the insured dies before then. Such policies are often used as an education or retirement fund. *Variable life* policies invest your premiums in ma[illegible] securities. The amount of death benefits depen[illegible] on the success of these investments. Other types of policies combine features. *Universal life* is term insurance with interest accumulation on the cash value. Some term insurance is convertible into whole life.

THE KEY IS PLANNING

Since you are newly independent, the odds are your income is modest, your assets few, and your financial life relatively uncomplicated. *Financial planning* may seem a grandiose name for the decisions you make about spending or saving your limited resources. But, financial planning it is, and planning is the key to positioning yourself to be able to reach your goals, and weather crises in the years ahead.

For more information, contact:

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1001 Pennsylvania Ave., N.W.
Washington, DC 20004-2599 (800) 423-8000

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This is one of a series of brochures about building and maintaining a financial identity – both as an individual and as a partner in a two-income household. The series is about selecting and using financial services and service providers. It covers credit, investments, financial services, job benefits, and financial planning.

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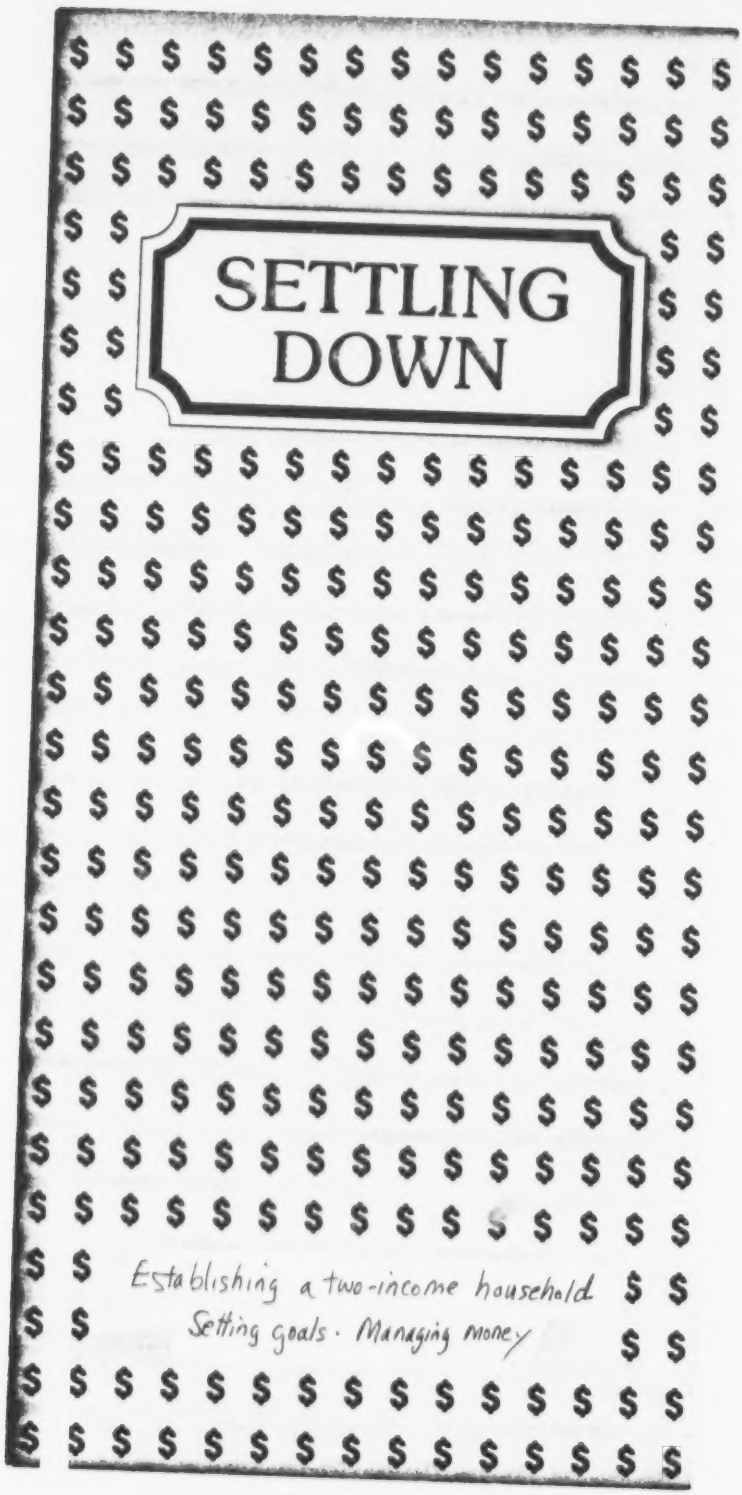
SETTLING DOWN
Establishing a two-income household
Setting goals · Managing money

YOURS, MINE AND OURS

SHARING FINANCIAL TASKS

Nearly 90 percent of young couples in the United States today earn two salaries. At first thought, budgeting and doing other financial planning tasks may seem easier with two workers contributing to household income. Yet, while all new households face a host of financial decisions, those with two wage earners have some special issues to resolve.

Money can be an emotional subject. Thus it is important to reach early agreement about who is responsible for routine financial management – paying bills, balancing the checking account, and keeping to a budget.

More important still is talking through short- and long-term goals and deciding how to budget both incomes to meet present and future needs.

- Should we pool all our income in joint checking and savings accounts, establish credit jointly, and share all financial decisions?

Pooling your funds in a joint bank account may make it easier to meet minimum balance requirements for interest-bearing checking accounts or certificates of deposit and also may lower the service fees charged on your account. However, many financial advisors recommend that even when most income is put into joint accounts, partners keep some funds in a personal savings or checking account.

- Should we maintain separate financial identities?

You may want to maintain individual financial identities for a variety of reasons, such as building credit histories, tracking professional and business expenses, or qualifying for graduate school loans. Having money and a credit history in your own name is especially important if your partner becomes incapacitated, dies, or leaves the household.

- Should we put investments, such as a house or other assets we brought into the partnership, in joint names?

Joint ownership of major assets, such as a house or a car, can have serious financial consequences if, for example, one partner defaults on payments or resells assets. Except in community property states, spouses may choose among several types of ownership.

Who owns the car also can have financial implications. Because of the way auto insurance rates are set, coverage may be less costly if the household car is in the woman's name, particularly when the couple is young.

MAKING ENDS MEET

SPENDING AND SAVING

Typically, young couples face a host of financial tasks, such as:

- Establishing a household, including purchasing durable goods
- Setting out on a career, which may include paying for additional education
- Attaining financial independence, which may include paying earlier debts
- Organizing finances including budgets, record-keeping, saving and investment plans
- Purchasing insurance
- Minimizing taxes
- Making wills
- Preparing for the financial needs of children and/or aging parents.

These financial tasks can be more complicated for two wage earners than for one. Although two salaries may mean more income, household expenses often increase because of work-related expenses such as child care, clothing, eating out, and transportation.

Although household income traditionally increases during the working years, you might experience a decline in joint income. This could happen if you or your partner take time off to raise children, go to school, decide to take a lower-paying job, or lose a job.

Experts usually advise couples to:

- Agree where you would like to be financially in 15 or 20 years.
- Consider what steps to take now to realize your long-term financial goals.
- Develop a realistic spending plan that separates fixed expenses, such as mortgage or rent, from flexible expenses, such as entertainment and clothing. If you buy

on credit, include debt repayment in the monthly budget. Also, allow for recreation and indulgence purchases.

- Remember to "pay yourself first." This means including monthly savings in the household budget, even if it is only a small amount. One rule of thumb is that you should have savings of about three to six months in take-home pay to use for emergencies.

USING CREDIT RESPONSIBLY

AVOIDING CREDIT PROBLEMS

As a two-income family, you probably will qualify for more credit than either of you did alone. Responsible use of credit can extend a couple's purchasing power, add flexibility to the monthly budget, and bring more financial opportunities within reach.

Because you both are employed, you already may have credit in your individual names. If not, you may want to establish an individual credit identity. In addition, you may want to establish joint credit accounts. If you are both liable on the account, or if one of you is an authorized user on the other's account, credit histories are required to be maintained in both names. Check with the companies where you open accounts to be sure they are reporting your credit in both names.

When both of you are responsible for debts, try to agree on how you plan to use credit. Paying creditors promptly will help protect your individual and joint credit histories and help you qualify for credit and charge cards, car or furniture installment loans, and home mortgages.

If you have difficulty paying debts on credit accounts, focus on repaying your current obligations before making additional credit purchases. In addition, you may want to take action to limit the possibility of a negative report on your credit records. For example:

- If you think you may be late making a payment, contact your creditors immediately, preferably before your payment becomes overdue.
- If your payments are already late, ask the creditors to help you work out a repayment plan; make future payments according to this schedule. You also might ask a nonprofit credit counseling service to help you make payment arrangements and work out a budget.
- If you are offered a debt consolidation loan, carefully review its terms before signing it. Such loans may involve extra costs and may require you to put your home or another asset at risk as collateral.

Federal laws and regulations protect consumers from a number of potential credit problems. For example:

The Truth in Lending Act helps you compare the "cost" of credit. Creditors are required to disclose their costs in writing, including the Annual Percentage Rate (APR) and other terms, before you become obligated for credit. The Fair Credit Billing Act permits you to dispute billing errors and protects you from unauthorized charges on your charge or credit card accounts. The Fair Credit Reporting Act allows you to correct inaccurate and incomplete information on your credit history and limits how your credit report may be used.

PLANNING AHEAD

MEETING CHANGING NEEDS

Establishing a household and having children are events likely to merit a reevaluation of financial strategies. These are some questions to ask:

- How will children affect our household budget?

Having children, or planning for them, has a dramatic effect on a two-career family's financial plan. For some households, it creates conflicting pressures: one partner may need or want to drop out of the workforce to care for the family at the very time more income is needed. If both partners continue to work outside the home, the budget may need to accommodate child care expenses.

The arrival of children may dictate a change in long-term investment strategies to pay for increased family living expenses and children's education. The added responsibility means taking a new look at health and life insurance coverage, housing, and many other parts of both short- and long-term financial goals.

- Do we need additional insurance coverage?

It is important to compare health plans and decide whether to keep them both, to rely on one employee benefit package to cover the entire household, or to buy supplemental health insurance. When making this decision, compare and evaluate the:

- amount of deductibles
- percentage levels of reimbursement
- kind and length of treatments covered
- amount of employee contributions, if any
- job security of both wage-earners
- difficulty or expense of rejoining each health plan if it is dropped.

Experts advise taking a fresh look at your *life insurance* portfolio at regular intervals. Some questions include:

Do we each have enough coverage to give the household financial security in case of a death?

Have we considered mortgage-life and credit-life insurance to cover outstanding debts?

Have we considered insurance products, such as annuities, as a way to accumulate money to pay for college education or retirement?

Do we have adequate disability insurance against the risk that one or both of us will be unable to work?

As couples mature and make investments, insurance coverage may need to be modified. Increasing homeowners insurance, adding endorsements to cover any collectibles, and buying umbrella policies to supplement liability coverage are a few examples.

- How can we make our money work best for us?

As with most financial decisions, *investment strategies* deserve regular review as income and responsibilities change. There are several variables to consider.

Liquidity: How fast can we get cash from the investment without loss of principal, and with what penalties?

Risk: Can we afford to lose some or all of the money, and are the growth prospects worth the risk?

Security: Are our responsibilities so great that a low-risk investment is wiser, even at a lower rate of return?

Tax consequences: What combination of investments will yield a good return with a minimum tax burden?

One of the biggest investment decisions you may make is whether to buy a home. Consider: Could we make the mortgage payments, even if one of us stopped working? Can we adjust our budget to include expenditures for taxes, maintenance, and repairs? After the down payment, will we have enough savings to meet an emergency?

GETTING ADVICE

SHOULD WE HIRE A FINANCIAL PLANNER?

Some people enjoy doing their own financial planning; others have little confidence in their financial knowledge or planning ability. If you think you need help, consider seeking the advice of a professional financial planner.

The proper role of a financial planner is to work with you to establish and achieve your financial objectives. Financial planners should do more than just recommend investments. They should be able to help with estate and retirement planning strategies, insurance, tax planning, and other financial decisions.

Ask for a contract or written agreement listing the tasks the planner will perform for you, the cost of the service, and how the charges are calculated. Financial planners earn their income several ways: fee-only; commission-only; or a combination. Because of these differences, understand and compare the implications of planners' fee-setting arrangements in relation to your goals.

Hiring a financial planner may not be a practical or desirable option for every household, but professional advice may help some young two-earner couples understand the process and rewards of financial planning.

THE KEY IS PLANNING

Young couples sometimes concentrate on current financial needs to the exclusion of longer-term financial planning. This may make it harder to cope with predictable and upredictable financial change. It also may result in missed opportunities for long-term investments. Setting financial goals and constructing a financial plan are themselves investments in time that are likely to reap important rewards.

For more information, contact:

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Health Insurance Association of America (HIAA)
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For information on financial planners...
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Institute of Certified Financial Planners
10065 East Harvard Avenue (Suite 320)
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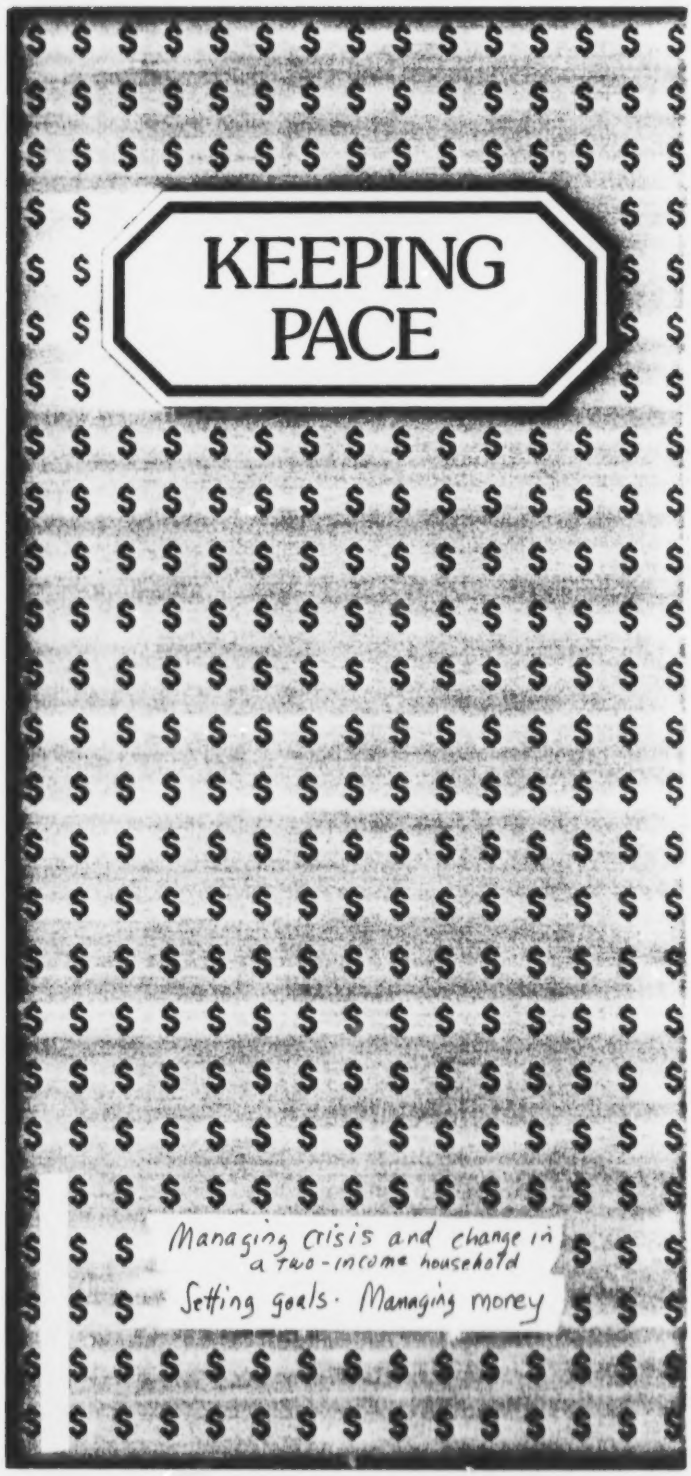
KEEPING
PACE
Managing crisis and change in a two-income household
Setting goals · Managing money

PREPARING FOR THE UNEXPECTED

Predictable and unpredictable events can involve expenses that strain even a two-income budget and could threaten your family's financial stability. Sound money management, started early in life, can give your family a financial cushion and the flexibility needed to cope during a financial emergency.

Effective financial management practices include:

- Establishing a budget that includes a regular savings plan
- Having adequate health, disability, life, and property insurance
- Using credit wisely to avoid too much debt and maintain a good credit history
- Planning early for children's future education expenses, your own retirement, and the care of aging parents.

In addition to following a budget and regular savings plan, two financial tools in particular can help you manage in an emergency – insurance and credit.

INSURANCE FOR EMERGENCIES – HOW MUCH AND WHAT KIND?

One of the primary purposes of insurance is to prepare for financial emergencies. You may want to ask yourselves these important questions at regular intervals: How much insurance is enough? What types of coverage do we most need now? Do our insurance policies complement rather than duplicate each other and provide enough coverage in case one income were lost?

These are some factors to consider:

Health and Disability Insurance

- What are the maximum benefits, co-payment requirements, deductibles, and stop-loss and renewal provisions of our respective major medical policies?
- Can either of our individual employee health plans be converted to cover the entire family should one of us become unemployed or the household break up because of death or divorce?
- Can our elderly parents be added to family coverage should they have health care needs not covered by Medicare?
- Is our employer-funded disability coverage adequate in case of long-term disability, or should we consider supplemental policies? What is the waiting period before disability payments begin and how long would they continue?
- What degree of disability must be experienced to receive payments: complete inability to work or inability to work at the current job?
- How would the amount of our disability payments be affected by other income or benefits?

Homeowners Insurance

- Are we insured to at least 80% of the replacement value of the house, as required by state law or by our insurance company?
- Does our policy automatically adjust for increases in the value of our house, or do we need to adjust it?
- Are the contents of our home adequately insured?
- Do we have enough liability coverage in case an accident occurs on our property? Should we consider an "umbrella policy" to supplement liability coverage for home and auto?

Life Insurance and Pensions

- Do we periodically review our life insurance policies to be sure we each have enough coverage to pay major debts and the mortgage, and to provide for the family in case one of us dies?
- What happens to any accrued retirement benefits if one of us must leave our job?
- Does each employee pension plan provide survivor benefits?

CREDIT FOR AN EMERGENCY– HAVING IT WHEN YOU NEED IT

Drawing on credit may give you flexibility to weather a financial crisis. Careful money management can keep lines of credit available and keep credit use within affordable limits during a crisis. Many experts advise keeping credit payments under 10-15% of annual income after taxes and housing expenses.

Although access to credit is important during financial emergencies, widowed, separated, or divorced women historically found that credit was not automatically available if they had never held credit in their own names. The Equal Credit Opportunity Act bans credit discrimination

on several grounds, including sex or marital status. Creditors nevertheless may deny credit because the applicant has no credit history.

If you want credit, but have not built a credit history in your own name over the years, it is not too late to apply. However, you may need to document your credit-worthiness:

- On all credit applications, you may list accounts you shared with your spouse, even if you were an "authorized user" on your spouse's account. Since June 1, 1977, all accounts are reported in both names. For accounts opened before that date, you can write to the lender and ask that your name be added.
- If you are widowed, your card issuer may ask that you reapply in your own name and can deny credit if you do not meet the qualifications. But, if you can show you were listed as an authorized user on your spouse's account, or were responsible for the bills, this may be evidence of a personal credit history.
- To establish creditworthiness on your income alone, start to build an independent credit history by obtaining a line of credit from a bank or store where you are known and promptly repaying whatever you borrow.

COPING WITH CRISIS

A financial emergency may create temporary changes in your income and budget, or it may require long-term readjustments in your financial lives. First appraise the problem and estimate how long it may last, then think through the implications of various solutions. Several situations might bring families face-to-face with financial difficulty:

- A short-term emergency, such as having one spouse temporarily laid off from work
- Loss of one income if for some reason one spouse cannot work for an indefinite time
- An unexpected increase in expenses if, for example, elderly parents become frail and need professional care
- A permanent change in circumstances that is caused by death or divorce.

Careful money management, always a good idea, may prove most useful when something unforeseen puts the household in a financial crisis. This is a time to reexamine all the parts of your financial identity, including spending and saving, insurance and job benefits, credit and family financial responsibilities.

SCALING BACK & STRETCHING DOLLARS

Households that have used financial tools to prepare for emergencies may have several strategies from which to choose:

Cut back on current spending

One way to reduce expenses might be to modify insurance coverage. To economize on health, accident, or life insurance coverage, you might consider competitively-priced group policies offered by your employer, a membership organization, or a private provider. Be sure waiting period and "pre-existing condition" requirements on new policies are met before canceling any policies.

Consider a Health Maintenance Organization (HMO) as a way to economize on health insurance costs, particularly if you or your family need frequent checkups and medicines. If, however, your family needs only occasional medical attention, consider keeping major medical coverage (such as hospitalization) and reducing coverage for routine medical visits and short-term illnesses.

Tap cash reserves

Use some of the reserves you have set aside. Financial planners usually advise keeping 3 to 6 months' take-home pay in liquid reserves (such as passbook savings or a money market fund) to use in emergencies.

Use unsecured credit

You may have access to forms of unsecured credit, such as some credit and charge cards and bank overdraft privileges. With careful management, credit can be a valuable tool in a temporary financial emergency. If you think you may be late making a payment, call the lender in advance to try to make special arrangements. If you are already overextended, promptly contact the lender and ask to work out a repayment plan. This may reduce your risk of negative credit reports, repossession of assets, or court action.

Borrow against your assets

If you own a home, consider borrowing against a portion of the equity through refinancing, a second mortgage, or a home equity line of credit. Experts can tell you if interest paid on your home-related debt is tax-deductible.

Shop carefully for any loan that puts your home at risk and check all terms and conditions, such as balloon payments and title search or appraisal fees. You also may be able to borrow on favorable terms against your equity in an employee pension plan or whole life insurance policy.

Liquidate assets

Consider selling major assets, or borrowing against their appreciation. If you sell your home when you or your spouse are age 55 or older, you may be able to take a one-time capital gains tax exclusion of up to $125,000 in profits. Under circumstances such as disability, you may be able to withdraw money from an individual retirement account (IRA) without owing additional taxes and penalties.

Explore financial assistance programs

Some households in crisis turn to public or private sources of financial assistance. Many of these programs are especially helpful in a short-term emergency.

Public programs include unemployment compensation, Medicare and Medicaid, food stamps, and assistance for the dependent elderly. Private assistance includes rent subsidies; low-cost banking, utility and phone services; and charitable and social service programs. To locate such programs, begin by checking the government and social services listings in your phone book.

Investigate other solutions

If you have no hope of repaying your debts, declaring bankruptcy, with the help of a qualified attorney, is a last resort. Bankruptcy can have long-lasting negative credit consequences. You might discuss other solutions with a nonprofit credit counseling service. Avoid for-profit services that entice you with promises too good to be true.

THE "SANDWICH GENERATION"

Increasingly, middle-aged, two-income couples find that changing family circumstances create unexpected financial pressures in the middle years of life. Called the "sandwich generation," these couples may be caught between obligations to their aging parents and to their college-aged children.

WHAT IF PARENTS BECOME ILL OR DISABLED?

Health care costs can be a problem for many older people and their families. Government and private programs for the elderly may be useful and are worth considering. At age 65, your parents are probably eligible for federal Medicare insurance, which covers some hospital and doctors bills, but rarely all. A private supplemental or "medigap" policy might help, *if* it supplements rather than duplicates Medicare or any other insurance coverage you may have. Carefully evaluate long-term care or nursing home policies before deciding to buy one.

A growing problem called "spousal impoverishment" occurs when family assets are used to pay for one spouse's long-term health care. Only when assets are diminished to the level set in the Catastrophic Care Act is the family eligible for Medicaid, but then, the healthy spouse has become impoverished. If one of your parents is in frail health, you may want to ask an attorney or other expert how to help protect your parents' assets under their state Medicaid program's "divestment" rules which permit transfers of some assets to others, if done a specified length of time before applying for Medicaid (usually at least two years).

If your parents are unable to manage their finances or make other important decisions, they might consider a guardianship, trust, conservatorship, or power of attorney which gives someone else legal authority to act for them. An attorney, bank officer, or other financial advisor can assist you with these matters.

THE KEY IS PLANNING

A major payoff of financial planning is being better prepared to anticipate and react to change. Coping with a temporary emergency or a long-lasting financial crisis may be easier if your household has been following an established plan that includes regular savings, adequate insurance, and careful use of credit. Even then, an emergency or crisis is a time to take a fresh look at your financial identity and prospects and to make any necessary modifications in your financial strategy.

FOR MORE INFORMATION

For additional information and brochures...
Consumer Information Catalog
Pueblo, CO 81009

Cooperative Extension Office –
U.S. Department of Agriculture (USDA)
(Your local office is listed under State, Federal or County Government in the phone directory.)

Consumer Affairs, Program Department
American Association of Retired Persons
1909 K Street, N.W.
Washington, D.C. 20049 (202) 728-4355

For more information on credit...
Federal Trade Commission, Public Reference
6th and Pennsylvania Ave., N.W.
Washington, D.C. 20580 (202) 326-2222

National Foundation for Consumer Credit
8701 Georgia Avenue, Suite 507
Silver Spring, MD 20910 (301) 589-5600

For more information on insurance...
American Council of Life Insurance (ACLI)
1001 Pennsylvania Ave., N.W.
Washington, D.C. 20004-2599 (202) 624-2455

Health Insurance Association of America (HIAA)
1025 Connecticut Ave., N.W.
Washington, D.C. 20036-3998 (202) 223-7780

For more information about programs for older people...
Area Agency on Aging and Social Security Office –
(Both are listed in most telephone directories under "frequently called numbers.")

This is one of a series of brochures about building and maintaining a financial identity – both as an individual and as a partner in a two-income household. The series is about selecting and using financial services and service providers. It covers credit, investments, financial services, job benefits, and financial planning.

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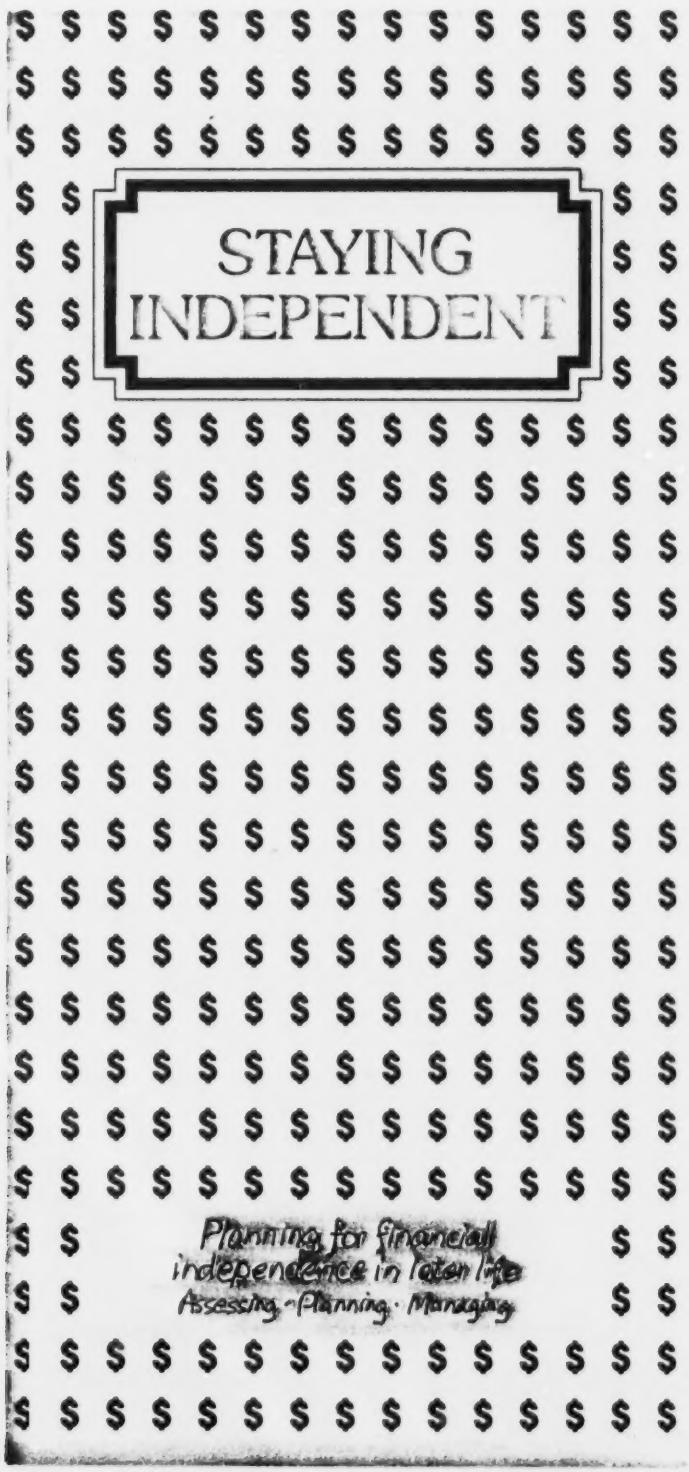
STAYING
INDEPENDENT
Planning for financial
independence in later life
Assessing · Planning · Managing

TAKING STOCK

As retirement approaches, it is important for every household to assess its financial identity (assess its finances). Waiting too long might mean missing one or more opportunities to preserve maximum financial independence in the future. To help get you started, *can you say "Yes" to the following statements?*

	YES	NO
We talk regularly and frankly about finances and agree on our goals and the lifestyle we will prefer as we get older.	☐	☐
We know our sources of income after retirement, how much to expect from each, and when.	☐	☐
We save according to plan and are shifting from growth-producing to safe income-producing investments.	☐	☐
We know where our health insurance will come from after retirement and what it will cover.	☐	☐
We have reviewed our life insurance and considered options such as converting to cash or investments.	☐	☐
We each have our own credit history.	☐	☐
We each have a current will or living trust.	☐	☐
We know where we plan to live in retirement.	☐	☐
We have anticipated the tax consequences of our retirement plans and of passing assets on to our heirs.	☐	☐
Our children or other responsible relations know where our important documents are and whom to contact if there are questions.	☐	☐
We have executed legal documents, such as a living will or power of attorney, specifying our instructions in case of death or incapacitating illness.	☐	☐

THE KEY IS PLANNING

"If only I'd known then what I know now...."

Looking to the future is key to financial planning at any age, but especially in the decade or so before retirement. For many households, retirement is a time to fulfill dreams and delayed ambitions. It also can be a time of anxiety if you postpone thinking realistically about the ways your financial identity will change–income, savings, investments, credit, insurance, job benefits, and perhaps living arrangements. Meeting the challenge of financial management will help remove uncertainty and increase your available options. Both partners need to be involved in retirement planning and may wish to discuss their plans with adult children.

Many people neglect planning. Some prefer to leave financial decisions to the other partner, while others simply find it too difficult to talk about money. Whatever the reason, if you have not yet begun planning, you may want to seek pre-retirement planning advice from a professional or a community service organization.

LOOKING AHEAD

The decade before retirement is a good time to take inventory of assets and obligations and make financial choices aimed at maximizing future resources. These years are typically a peak earning period and they offer the chance to reduce major debts, such as a home mortgage, and increase savings and income-producing investments. Households facing the combined expenses of educating children and caring for aging parents may find saving difficult during pre-retirement years. In these cases, making a realistic financial appraisal is more useful. These are questions you might ask yourselves:

- What are our sources of retirement income and how much will each provide–monthly or in a lump sum?
  - Social Security
  - Pensions, IRAs, Keoghs
  - Savings and investments
  - Sale of assets
  - Home equity

Find out all the options for receiving your pension benefits and whether they are insured. Find out if pension benefits will be reduced if you receive Social Security. Read carefully and consider the consequences

of signing any documents relating to a reduction in spousal pension benefits. One of you may need this income if the other dies.

When estimating how much income can be expected from these and other sources, remember to take inflation, taxes, and market fluctuations into account. Depending on your anticipated income potential, you may decide to postpone retirement a few years, or plan to work part-time.

• Is our health insurance adequate for retirement?

The cost of serious or long-term illness is a major burden for many older Americans because Medicare does not cover all health care costs. If you consider buying "medigap" insurance to supplement Medicare, shop carefully for a policy that supplements rather than duplicates Medicare coverage. Long-term health insurance for nursing home or home health care is new. Examine all the terms of any such policy before you buy.

MANAGING WHAT YOU OWN AND WHAT YOU OWE

Professionals say that retirement income should be 60-80 percent of current income to maintain the same standard of living. If your financial picture does not correspond to this guideline, you might prepare a budget and a cash flow statement based on income and expenses during the preceding 6 to 12 months in order to identify gaps in income and find ways to cut spending.

On the expense side:

• List current expenses such as housing, food, health care,transportation costs, and other financial obligations.

• Include a contribution to savings. Experts recommend a reserve fund to cover 6 months of basic expenses.

• Itemize personal expenses for such things as clothing, travel, entertainment, and hobbies.

• Develop habits such as price shopping, menu planning, coupon clipping, and monitoring your use of credit to guard against overspending.

On the income side:

• Think through contingency plans in case expenses begin to outpace income or one partner becomes seriously ill.

• Remember that credit histories in your individual names can be invaluable in retirement, or in the event of widowhood or divorce. Credit can be essential to meet unexpected or emergency expenses.

Federal regulations prohibit age and gender discrimination in the granting of credit. Lenders must treat all income alike, whether from employment, retirement benefits, or other reliable sources. Still, it may be easier to get a national credit or charge card in your own name while you are employed. If you have never been employed, you can still build a credit history by becoming an "authorized user" on your spouse's account.

• Consider selling assets or converting life insurance into cash as another possible way to meet expenses.

• Investigate Home Equity Conversion (HEC) as an option if you own or nearly own your home and need money. There are several kinds of home equity conversion loan plans, including Deferred Payment Loans and Reverse Mortgages, where you borrow against home equity and receive monthly or periodic cash payments.

Unlike home equity loans or lines of credit, reverse mortgages involve no monthly repayments as long as you live in your home or until a predetermined date. These plans do involve costs for application fees, closing costs, and interest, and they may affect eligibility for public benefits programs such as Medicaid. Generally, you can decide how to spend the money. Reverse mortgage plans are not all the same, so it is important to read the loan documents carefully. Check with a trained HEC counselor, other financial advisor, or an attorney before deciding whether home equity conversion is appropriate.

LEGAL MATTERS

You can use several legal tools to maintain control over your affairs in later years. These will enable you to decide, while healthy and alert, what you want done in the event of death or disability. Be sure to discuss any arrangements with your survivors to save them from facing difficult decisions and to give them peace of mind, knowing they are complying with your wishes.

• Wills–If you do not have a current will, the state, not you, will decide how your assets are divided. Such legal documents as Living or Revocable Trusts offer ways to avoid probate.

• Trusts–This device lets you decide who would be responsible for your financial affairs if you became unable to manage them yourself.

• Powers of Attorney and Living Wills–Powers of attorney typically assign responsibility for financial matters to another person. Some apply to health care decisions as well. You can use a Power of Attorney or a Living Will to state in advance your wishes in case of an incapacitating or life-threatening illness. Doing so is essential if you want your family to know the circumstances in which you wish to decline life-support measures.

RELOCATING OR STAYING PUT

Where to live after retirement is a major decision. Perhaps you plan to relocate to a more favorable climate or to be near family. Research the consequences of such a move in terms of the basic cost of living, access to health care, and state and federal tax obligations.

If you are considering the advantages and disadvantages of selling your home, whether or not you plan to relocate, these are some questions to ask:

• Can we afford monthly payments for mortgage, taxes, utilities, and maintenance?

• Will one or both of us be able and willing to take care of the house?

• Is the house a suitable place to live as we grow older and less agile?

• Will we need to draw on our home equity as a source of income or credit, or would we have more options if we sold the home and invested the proceeds?

In addition to owning a home or renting an apartment, a number of other housing options may be available in your community, many of which offer savings on housing expenses. These are some alternatives to consider:

• House-sharing for help with chores or added retirement income;

• Group living in a private home or one sponsored by a social services agency;

• Accessory apartments, or mobile or manufactured homes, including ECHO (Elder Cottage Housing Opportunity) housing which, if zoning laws permit, can be installed on the property of an adult child or other relative;

• Condominiums or cooperatives which have the advantages of home ownership without the burden of maintenance;

• Retirement communities which may offer companionship, recreation, and sometimes medical and housekeeping services.

SPECIAL CONSIDERATIONS

An important part of financial planning is anticipating how to handle bad times. Prudent planning includes learning about public and private benefits programs. In most communities, governmental and private agencies offer services to help care for older persons, such as low-cost medical clinics, home health care, housing options, adult day care, and chore services.

The local Social Security Administration office has information about entitlement programs such as Medicaid, disability insurance, food stamps, and Supplemental Security Income. Ask about your state's Medicaid "divestment" rules which permit transfers of some assets to other people if done a specified length of time before applying for Medicaid (usually at least three years). Divestment is a precaution some take to avoid "spousal impoverishment" when all the family's assets are spent before a sick family member can be eligible for Medicaid assistance.

When arranging family matters, it will ease your survivors' emotional burden if you let them know your preference for funeral or memorial arrangements. You can handle these matters yourself by planning through a non-profit cooperative memorial society or by pre-paying at the funeral home of your choice. If you decide to pre-pay, be sure you or your survivors can cancel the contract should you move or change your mind. Planning ahead and using comparative shopping skills can save thousands of dollars in funeral expenses.

PLANNING TO STAY INDEPENDENT

It's never too early to start retirement planning, and never too late to make adjustments in your financial situation. Whether wealthy or not–and it is probably more important for those who are not–investigating your options and making practical choices now can allow you to stay in charge and meet future financial goals.

FOR MORE INFORMATION

For additional information and brochures...

Consumer Information Catalog
Pueblo, CO 81009

Cooperative Extension Office–local office is listed under State, Federal or County Government in the phone directory

American Association of Retired Persons
Consumer Affairs, Program Department
1909 K Street, N.W.
Washington, DC 20049
(202) 728-4355

Federal Trade Commission, Public Reference
6th and Pennsylvania Ave., N.W.
Washington, DC 20580
(202) 326-2222

National Foundation for Consumer Credit
8701 Georgia Avenue, Suite 507
Silver Spring, MD 20910
(301) 589-5600

American Council of Life Insurance (ACLI)
1001 Pennsylvania Avenue, N.W.
Washington, DC 20004-2599
(202) 624-2455

Health Insurance Association of America (HIAA)
1025 Connecticut Ave., N.W.
Washington, DC 20036-3998
(202) 223-7780

Continental Association of Funeral and Memorial Societies, Inc.
7910 Woodmont Avenue
Bethesda, MD 20814
(301) 913-0030

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